December 19, 2001

Ms. Mary L. Cottrell, Secretary
Massachusetts Department of Telecommunications and Energy
One South Station
Boston, MA 02110

RE: Filing for Approval of Certain Supplier Fees for Services

Dear Ms. Cottrell:

On October 23, 2000, Bay State Gas Company ("Bay State" or the "Company") filed with the Massachusetts Department of Telecommunications and Energy ("Department"), certain tariffs in compliance with directives set forth in D.T.E. 00-12. Specifically, the Company submitted its tariffs supporting the implementation of the Model Terms and Conditions ("T&Cs") for distribution and default service. The Department approved those T&Cs effective November 1, 2000.

In Bay State's cover letter accompanying its October 23rd filing, the Company explained that it would submit by separate filing, "its request for approval of certain existing and new fees," in accordance with its T&Cs. The instant filing represents the Company's request for approval of certain supplier fees for services associated with Bay State's unbundling programs. Specifically, the Company is seeking to update its current T&Cs to include the following:

?? A $0.60 fee per bill per month (to be billed at the supplier level) for Standard Passthrough Billing as set forth and allowed in Section 14.2.2 of the T&Cs;
?? A $1.50 fee per bill per month (to be billed at the supplier level) for Standard Complete Billing as set forth and allowed in Section 14.2.1 of the T&Cs;
?? A $0.10 fee per customer account per month (to be billed at the supplier level) for General Pool Administration as set forth and allowed in Section 24.6.6 of the T&Cs; and
?? A $10.00 fee per switch for Customer Switching applied to suppliers taking a customer from another supplier's pool or moving a customer from one of its pools to another, as set forth and allowed in Sections 24.5.9 and 24.6.6 of the T&Cs.

The proposed fees are designed to provide necessary services to retail suppliers operating in Bay State's service territory at prices that ensure that incremental costs are appropriately borne by the beneficiaries of those services without discouraging market participation. In support of the Company's proposal, Bay State establishes below that the proposed supplier fees for services are: **(1)** generally cost-based, fair and appropriate, **(2)** consistent with the Company's previously approved and current T&Cs, and **(3)** reflect both the Company's five (5) years worth of unbundling experience and current market conditions.

The Company submits the following items in support of its request: (1) documentation establishing the cost basis for the proposed supplier fees for services (Appendix A); and (2) a proposed revised tariff M.D.T.E. No. 2, Sheet No. 65 (Appendix B) and a corresponding red line version, reflecting the specific charges being proposed.

In addition, the Company is taking this opportunity to inform the Department of its telemetering fees for Daily Metered Service. Pursuant to Section 11.5.1 of the Company's T&Cs, Bay State already has the authority to charge these fees. The one-time fee for the telemetering device and installation is $1,400 for instrumented meters and $475 for non-instrumented meters. In addition, the Company's monthly fee for maintenance is $6.50. The Company notes that it has had no cause to assess the one-time fee since it has not enrolled any new Daily Metered Service customers since the implementation of its T&Cs on November 1, 2000. The Company will be assessing the monthly $6.50 fee beginning January 1, 2002. Section V of Appendix A presents the derivation of these fees.

(1) The Proposed Supplier Fees For Services Are Generally Cost-Based, Fair and Appropriate

The Company asserts that the proposed supplier fees for services are generally cost-based, fair and appropriate to charge. Specifically, as illustrated in Appendix A, two of the four proposed fees (i.e., Standard Passthrough Billing and General Pool Administration Services) are based on the incremental costs Bay State has incurred, and expects to continue incurring, during its several years of experience implementing and administering unbundling programs. Although the Company's third proposed fee, Standard Complete Billing Service, is based, in large part, on incremental costs, it is also based, to a lesser degree, on market-based factors since it is a truly optional service. The fee for the fourth proposed service, Customer Switching Service, considers both the potential problems associated with slamming as well as the types of costs the Company incurs to provide this type of service.

A. Standard Passthrough Billing Service

Pursuant to Section 14.2.2 of the Model Terms and Conditions, "… (T)he Company shall provide an electronic file for the Supplier that will contain the Customer's usage being billed including the current and previous meter readings. The Company may charge a fee to the Supplier for providing the billing information described in this section as approved by the MDTE."

The Company's proposed fee of $0.60/bill/month for Standard Passthrough Billing, charged at the supplier level, includes an estimate of information systems costs charged to Bay State consistent with the Company's historic experience and cost structure. As detailed in Appendix A, this proposed fee reflects only those costs incurred by the Company to provide suppliers with the data/information suppliers require to ensure that the billing of their customers for natural gas commodity is consistent with the utility bill those customers receive for transportation service, should the supplier elect to do its own commodity billing.

B. Standard Complete Billing Service

Pursuant to Section 14.2.1 of the Model Terms and Conditions, "The Customer shall receive a single bill from the Company for both Distribution Service and Supplier Service. The Company may charge a fee to the Supplier for providing this billing service as approved by the MDTE…. The Company shall reasonably accommodate, at the Supplier's expense, different customer classes or rate structures as agreed to by the Company and the Supplier in the Supplier Service Agreement."

The Company's proposed fee of $1.50/bill/month billed for Complete Billing Service, charged at the supplier level, is based, in part, on the $0.60 charge established for the Standard Passthrough Billing service. The incremental $0.90/bill/month billed at the supplier level includes the costs associated with providing this enhanced, optional service as well as a market-based element. See Appendix A for a description of the enhanced services as well as pricing information. In addition, the proposed price point of $1.50 is consistent with the Company's experience in having offered similar, specialized services to suppliers over the years.

In sum, for a nominal fee, suppliers can avoid the costs for setting up stand-alone billing systems and other support services, which can pose significant barriers to entry into the market, especially for smaller suppliers. These reasonably priced services also allow new suppliers to enter the market on a level playing field with the large national suppliers. Because Bay State already has such a system in place, certain suppliers have historically taken advantage of that system, and virtually every supplier who subscribed to our billing service was able to easily incorporate its cost into their customer pricing while still offering significant savings.

C. Pool Administration Services

Pursuant to Section 24.6.6 of the Terms and Conditions, "The Company may charge a monthly fee to the Supplier for each Aggregation Pool…." Further, Section 24.5.9 establishes that, "The Company may charge fees to the Supplier for processing the transactions described in this section [Supplier Terms and Conditions], as approved by the MDTE."

i. General Pool Administration Service Fee

The Company's proposed fee of $0.10/customer account/month for General Pool Administration Service, charged at the supplier level, is based on an estimate of information systems costs charged to Bay State, which is consistent with the Company's historic experience and cost structure. See Appendix A for more detail on this service, including pricing information.

ii. Customer Switching Service Fee

The Company's proposed fee of $10/customer/switch for Customer Switching Service, charged at the supplier level, is based, in part, on the Company's historic experience as an effective means for deterring slamming during its Pioneer Valley Customer Choice Pilot program ("Pilot Program") without negatively affecting supplier participation in the unbundled marketplace. Where there are costs associated with customer switching, a supplier has greater incentive to be more careful with customer enrollments and departures.

The proposed fee also helps defray the unique costs of account maintenance that such activity requires, including the added expense of the notification to each supplier as well as to the customer of the change about to take place. The Company notes that it has not specifically based the proposed $10 fee on the incremental account maintenance costs incurred to provide this service. However, there is undoubtedly a certain level of backroom billing support needed to accurately process these transactions.

It is difficult to capture the cost of each and every transaction when a switch takes place. For example, the Company incurs costs every time it is required to print a custom message on the customer's bill and send electronic files to the former and current marketer. Further, it is not unusual to field an inquiry from one or both marketers or from the customer about the status of accounts. These inquiries may come through Bay State's call center, via email, or by regular mail. In addition, occasionally the Company has needed to call customers to resolve disputes between suppliers. Thus, these discrete yet recurring activities make it difficult to capture the true costs to provide this service, but these costs are real and incurred on a regular basis.

Lastly, the Company contends that it is appropriate to charge suppliers for the incremental costs associated with the above described services, because it is fair and appropriate for suppliers who benefit from using the Company's various personnel and billing systems to incur costs for such services. To do otherwise would unfairly burden the Company with actual incremental costs it is incurring to provide unbundled services, and unnecessarily lead Bay State to recover these costs from all its firm bundled and transportation customers in the future through basic rate setting in a general rate case.

In sum, Bay State seeks to reinstate the Customer Switching Service fee it once charged as part of its Pilot Program program, and its affiliate, Northern Utilities, is currently charging as part of its New Hampshire C&I unbundling program.[1] This fee would defray transaction costs and discourage slamming now that the entire Massachusetts marketplace is open to competition.

(2) The Proposed Supplier Fees for Services Are Consistent With Previously Approved and Current T&Cs

Bay State's proposed supplier fees for services are consistent with the Company's previously approved and current T&Cs in a number of respects. For example, two of the proposed fees were previously implemented in conjunction with Bay State's Pilot Program. Specifically, the Pilot Program included the Complete Billing Service charge and the Customer Administration charge. In addition, the Company's current T&Cs anticipated the implementation of these charges. Specifically, pursuant to Section 14.2.4 of Bay State's current Terms and Conditions, "[e]xisting Company service fees…. shall remain in effect and shall be assessed, as applicable, according to these Terms and Conditions." Accordingly, as agreed to in the November 30, 1998 Department-approved settlement and in accordance with the aforementioned provision in Bay State's current Terms and Conditions, Bay State respectfully requests that the Department approve these two (2) carryover fees.

Regarding, the Passthrough Billing Service, the Company notes that this provision is also consistent with Bay State's currently approved T&Cs. For example, Section 14.2.2 of the Terms and Conditions, entitled *Standard Passthrough Billing Service* states, "[t] he Company may charge a fee to the Supplier for providing the billing information described in this section as approved by the MDTE." This language is consistent with that set forth in Section 14.2.1, entitled *Standard Complete Billing Service*, which states, "[t]he Company may charge a fee to the Supplier for providing this billing service as approved by the MDTE." Similarly, Bay State's proposed $0.10/customer account/month General Pool Administration charge is also fully consistent with the current T&Cs. Section 24.6.6 states that, "[t] he Company may charge a monthly fee to the Supplier for each Aggregation Pool…." Further, Section 24.5.9 establishes that, "[t]he Company may charge fees to the Supplier for processing the transactions described in this section [Supplier Terms and Conditions], as approved by the MDTE." Accordingly, Bay State respectfully requests that the Department approve these two (2) new fees.

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[1] In Docket No. 98-124, the New Hampshire Public Utility Commission recently approved similar services and fees as part of Northern Utilities' unbundling programs.

(3) The Proposed Supplier Fees for Service Reflect Both The Company's Unbundling Experience And Current Market Conditions.

In addition to the above support, Bay State provides the following historical information garnered from its more than five (5) years worth of experience offering competitive suppliers access to value-added services for both daily and non-daily metered programs.

In November 1996, Bay State launched the largest, and to date, longest running, non-daily metered customer choice Pilot Program in Massachusetts. With the launch of the Pilot Program, it quickly became apparent that suppliers required an experienced bill production service to support their efforts. Bay State responded by developing and offering an optional service whereby it produced customer bills containing both its distribution and the supplier's commodity charges. Payment processing through normal Bay State channels was included in this service, as were daily electronic files, which helped suppliers track account activity. Over one-half of the suppliers participating in the Pilot Program elected this service during the program's first three years. Additionally, a number of those suppliers sought call center services from Bay State as well, where Bay State employees would answer the telephone as a representative of the supplier's company, responding to a wide range of customer inquiries. At the peak of the Pilot Program's enrollment, over 14,000 of the 28,000 total participants were supported through these value added services.

Then, when the Massachusetts electric restructuring legislation required a change in the way billing would progress in the deregulated utility marketplace, Bay State modified the above described services in an effort to comply with the anticipated unbundling of the natural gas industry. Consistent with the electric legislation and Bay State's then-approved T&Cs, Bay State began offering the Standard Complete Billing Service beginning in November 1999. Since that time, approximately 70% - 80% of the customers remaining in the program have been associated with suppliers utilizing this billing service.

Bay State also enhanced its billing service to allow a supplier to have different prices for each customer if they so desired. The Company rewrote its programming to allow a customer the option to remain on a levelized annual budget. Bay State also reworked its cash processing systems to split payments and support a separate set of books for supplier balances. Knowing that customers typically direct their inquiries to the company whose name appears at the top of the billing statement, Bay State disbanded the separate call center service and incorporated call center support into the base cost of the billing service. In addition, the Company has structured its call center to handle supplier calls with the same level of care and attention as its bundled customers.

Finally, these services have helped the customer become acclimated to the deregulated marketplace. The billing statements they receive are not so different from the ones they were used to receiving as a bundled, sales customer. The relationships with payment agents, fuel assistance, and other outside agencies remain unchanged and uncomplicated.

While some suppliers may have come and gone, customers have been afforded the ongoing, consistent relationship with Bay State.

Conclusion

Based upon the above discussion, Bay State respectfully requests the Department's approval of the proposed supplier fees for services as set forth in the enclosed tariff pages to be incorporated as part of the Company's T&Cs. To the extent that the marketplace continues to develop over time, Bay State anticipates that it may propose to offer additional services and/or modifications to the fees currently proposed. However, Bay State believes that it is important to establish appropriate fees for these services in the early stages of full retail choice, so that both suppliers and customers may make fully informed decisions. Moreover, they will allow Bay State to offer suppliers value-added services that will benefit their efforts to attract new customers.

Bay State looks forward to continuing its role as a leader in the fully unbundled retail natural gas marketplace. As such, Bay State would like to have the ability to offer a wide range of value-added services that will enhance customers' and suppliers' experiences while doing business on our system. The fees proposed herein will allow Bay State to fulfill that commitment.

Thank you for your consideration and attention to this matter.

Sincerely,

Joseph A. Ferro
Manager, Regulatory Policy

Enclosures

cc: George Yiankos, Director Natural Gas Division
Andreas Thanos, Assistant Director Natural Gas Division
Joseph Rogers, Assistant Attorney General (2 copies)
Bay State Gas Company's Current Supplier List
George H. Simmons, DOER
Robert Keegan, Keegan, Werlin and Pabian